

An Agency of the State of Hawaii

Stadium Authority Special Meeting 99-500 Salt Lake Boulevard Honolulu, Hawaii 96818 June 19, 2008

Members Present
Kevin Chong Kee, Chairman
Kay Ahina
Kathryn Inouye
Alexander Kane, Jr.
Kenneth Marcus
Nelson Oyadomari

Members Absent Marvin Fong Marcia Klompus Alan Tamayose

Staff
Scott Chan
Lois Manin
Deborah Ishihara

Others

John Dellera, Deputy Attorney General Randall Nishiyama, Deputy Attorney General

I. CALL TO ORDER

A quorum being present, Chairman Kevin Chong Kee called the meeting to order at 10:10 a.m.

Chairman Chong Kee stated the purpose of this meeting is to go over the offers for the Advertising Concession for Aloha Stadium.

II. Aloha Stadium Advertising Concession Invitation for Bid (IFB) – Discussion and action on advertising concession contract.

Report by Member Marcus

The bid went out as scheduled. The committee was caught by surprise with the late addition to the IFB, requiring the bidders to spend \$150,000 for the replacement of television sets at the stadium. That changed the economics significantly of the five-year base proposal.

The bid was a two-tier type bid in which a firm could bid on a 5-year contract by offering a percentage to do the advertising, subject to the \$150,000 requirement; or, it could commit to significant capital improvements, thereby qualifying for a 10-year contract. In that instance they could recover the cost of the improvements on a bid rate of return.

The following are the specifics of the two bids received:

- 1. EpicRays LLC (a fairly young company doing advertising and promotional work in Hawaii). They bid a simple 25% commission on a five-year contract with the obligation to put in television sets costing \$150,000 (50% the first year and 50% the second year).
- 2. <u>CBS Collegiate Sports Properties, Inc. (a CBS affiliate)</u>. They bid on the basis of the capital improvements and assumed they would have a 10-year contract. Their commission was 60% with a commitment to spend between \$1.2 and \$1.3 million which they would recover after our guaranty with a 12% rate of return; once they have recovered the repayment, we go into a 60%-40% split.

Deputy Attorney General Dellera stated he called CBS concerning the inconsistencies with the IFB and asked them if they would be willing to revise their bid so that it conforms to the terms of the IFB in two respects: 1) That they would pay for the cost of the televisions just as the other bidder had proposed; 2) Because they had not met the \$2.5 million threshold for capital improvements they would have a five-year contract rather than a 10-year contract. David Johnston of CBS called Mr. Dellera this morning and said they would agree to pay for the cost of the televisions (\$150,000), but they would not agree to the second item; therefore their capital improvements would be contingent upon a 10-year contract rather than a 5-year contract.

Member Inouye noted that in CBS's bid they also stated they would consider other capital expenditures during the duration of the ten years. Mr. Dellera said for purposes of the evaluation and the award of the contract, we are limited to what they proposed in their bid. Member Inouye inquired if there could be some flexibility in making changes during the term of the contract without invalidating the bid process. Mr. Dellera replied that the parties could possibly work together and expand the scope.

Member Oyadomari inquired if there could be potential conflicts with CBS (if selected) and other local or national networks. Mr. Dellera stated if they comply with the terms of the contract, there should not be a conflict.

Member Marcus stated the presentations are very different. Over the initial five years they are very similar in terms of the amount of monies received by the Stadium, because of the recovery provision they are projecting (there's no guaranty beyond their guaranty). In addition, EpicRays guaranteed a \$30,000 starting number with increases

from that (our 75% would be \$30,000 or more of the first year). CBS guaranteed that our minimum would start at \$150,000 and increase by 3.5% per annum. Member Marcus stated the Board is left with four alternatives:

- 1. Accept EpicRays' bid;
- 2. Accept CBS' bid;
- 3. Reject both bids and assign Stadium staff to call the existing advertisers and offer them the opportunity to renew at their existing rates or above, depending on the market.
- 4. Find out if the University of Hawaii has an interest in handling the advertising. Member Marcus inquired if Stadium Manager knew the status on that subject. Stadium Manager said there was no dialogue on this matter, pending the status of the bids.

Member Ahina summarized her understanding of the two bids: CBS would have a 10-year contract with 60% commission and EpicRays a 5-year contract with 25% commission. Member Marcus stated CBS projects far greater receipts. Member Ahina stated the guaranty for CBS in year one is \$150,000 and an increase by 3.5% per annum. EpicRays has a \$30,000 guaranty; per Member Marcus, it doubles in the second year and then increases in steps to \$90,000 in the final year.

Member Marcus stated the committee does not have a formal recommendation, but he and Member Inouye agree that the CBS proposal is attractive and represents an excellent opportunity to improve the Stadium. It will also support the new sales and marketing specialist's efforts. Member Inouye said we would see immediate results if we act on it quickly.

Both Member Inouye and Stadium Manager expressed the importance of having a local agency selling the ad space. Ms. Inouye said that is what will determine the degree of success.

Mr. Dellera stated, with reference to scoring both proposals, we have the information from both bidders of their experience in Hawaii and the local market. If the feeling is that one bidder has a decided advantage in that element, then they deserve more points. Member Inouye said she and Member Klompus agree with Mr. Marcus that EpicRays is a young starter company, but this is beyond the scope that she would be comfortable with for them. With CBS, they are very experienced and do this at stadiums across the U.S. This is a chance to get the \$1.4 million in capital improvements in time for the next football season.

Chairman Chong Kee asked for questions from the Board.

Mr. Oyadomari inquired if there are any ethics issues if a member has done business with principals of an affiliate of EpicRays. Mr. Dellera said this is unavoidable in Hawaii. If members of their family or business associates have a financial or business relationship with one of the bidders, the board member may be recused from participating in the contract award. Otherwise, the committee should score proposals solely on the basis of the bids and not consider any facts that are known outside.

Member Ahina noted that one bidder reserved the right to renegotiate the terms and conditions of its contract if the stadium loses the UH football program as a home facility. Mr. Dellera stated when a material element of a deal or contract disappears and the basis of the bargain has changed substantially, it is very likely either party could rescind the contract.

Member Ahina inquired if there was anything mentioned about using local contractors in the EpicRays' bid. Mr. Dellera answered no, but that CBS said if they are selected and obtain the contract, they will hire local subcontractors to do the work.

Ms. Inouye inquired who is going to supply and install the aluminum substrate for the banners. Mr. Dellera replied it is the bidder's responsibility to maintain all improvements, including the televisions for the duration of their contract and placement of aluminum substrate, etc. This is all subject to the Stadium Manager's approval.

Member Ahina asked if there is a timeline of all the improvements. Mr. Dellera said half of the televisions must be installed by the end of this year and the other half by May 31, 2009. CBS indicated they would install all the televisions by August 31, 2008 and all other improvements by next year. Mr. Marcus noted that the videos and small silkscreen would be done now and then the bulk of the more significant capital improvements, including the scoreboard work, would be done between the 2008 and 2009 football season.

Member Oyadomari asked Stadium Manager if it will be feasible to do the improvements at the same time that the stadium renovations are in progress. Manager Chan said it will involve some coordination.

Member Ahina inquired how do the bids compare to what we have now. Member Marcus said right now we have a contract similar to EpicRays – there is no commitment or obligation on Hawaii Malls part to do anything other than install the signs; they receive 19% and have nothing to do with televisions or investments. EpicRays is asking for 25% and offers a much better deal than Hawaii Malls.

III. Executive Session

A MOTION WAS MADE BY MEMBER OYADOMARI AND SECONDED BY MEMBER INOUYE TO GO INTO EXECUTIVE SESSION AT 10:46 A.M. THE MOTION CARRIED UNANIMOUSLY.

The meeting reconvened at 11:25 a.m.

IV. Recommendation by the Advertising Concession IFB Committee

Member Marcus stated the Committee's recommendation is to accept the bid from CBS Collegiate Sports Properties, Inc. and modifying it by the acceptance of the 10-year term as opposed to the 5-year term. Mr. Marcus also recommends acceptance on the basis that they are doing all of the improvements before the beginning of the second football season.

Results of the two score sheets were announced:

<u>CBS</u>	<u>EPICRAY, LLC</u>
56	24
75	21

The Board will consider the recommendation and make a decision on June 26, 2008.

V. Next Meeting

June 26, 2008

VI. Adjournment

12:20 p.m.

KEVIN CHONG KEE

Chairman

Minutes of Stadium Authority Special Meeting June 19, 2008 Page 6

Recorded by:

Diana Ho

Approval Date:

June 26, 2008